



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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For Immediate Release
Wednesday, May 2, 2001

Grassley Seeks Answers in Internet Sales Tax Debate

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee of Finance, is seeking answers to multiple questions in the debate over whether state and local governments should be able to require taxes on certain sales made via the Internet.

Grassley and Sen. Max Baucus, lead Democrat on the Committee, this week wrote a letter to the Congressional Budget Office asking for economic data on how consumers, state and local governments and Internet businesses would fare under additional Internet sales taxes.

“The U.S. Supreme Court gave this issue to Congress,” Grassley said. “It’s up to us to decide whether to let state and local governments require businesses to collect sales taxes on certain Internet purchases. This is a big decision. It affects how much consumers pay when they order a book or a sweater on-line. It affects how much money state and local governments collect for their public initiatives. It affects the bottom line of those doing business on the Internet. We have to go into this debate equipped with all of the facts.”

The Grassley-Baucus letter to the Congressional Budget Office asked for guidance on which related economic issues can be addressed only through Internet tax policy and which can be addressed through state and local governments independent of Internet tax policy. The senators also asked for an analysis of issues including:

- ▶ the equal treatment of consumers with Internet access and those without;
- ▶ the social benefits of Internet growth;
- ▶ the high compliance costs on Internet businesses of collecting sales taxes for state and local governments;
- ▶ and the loss of state and local government tax revenue via Internet sales.

The U.S. Supreme Court has ruled that state and local governments can’t require out-of-state vendors to collect and remit sales tax on purchases made by their residents. However, the Court said that Congress could impose such a requirement. A limited moratorium on new sales taxes on electronic commerce is set to expire in October.

“I’m looking forward to a thorough, scholarly analysis from the Congressional Budget Office,” Grassley said. “That will help us make the right decisions on this issue.”

The Grassley-Baucus letter follows.

May 1, 2001

Dan L. Crippen
Director
Congressional Budget Office
Ford House Office Building, Room 402
2nd and D Streets, SW
Washington, D.C. 20515

Dear Director Crippen:

In the last several years, the Congress has had concern about the appropriate policy to pursue regarding state and local government taxation of sales over the internet. Although a state or local government currently may collect sales tax on internet purchases by its residents, enforcement is difficult and minimal revenue is collected. The Supreme Court has ruled that states and local governments cannot require remote sellers to collect and remit sales tax on purchases by their residents. The Court has, however, said that Congress could impose such a requirement.

The debate about the desirability of Congress giving state and local governments the authority to require remote sellers to collect and remit sales tax has raised a variety of economic concerns. It would be helpful to the Finance Committee's consideration of the question to have a study that evaluated the numerous economic concerns raised by both sides of the debate. In particular, the committee would like to know which concerns are consistent with conventional economic theory and appear to be qualitatively important. In addition, it would help to understand which of the economic issues can only be addressed through internet tax policy and which can be addressed by state and local governments independent of internet tax policy.

The economic issues addressed should include but not necessarily be limited to:

- i efficiency issues including non-neutral taxation, interstate tax competition and size of the public sector, and the social benefits from growth of the internet;
- ii equity issues including equal treatment of consumers and the digital divide;
- iii high compliance costs imposed on remote sellers required to collect taxes for state and local governments;
- iv the loss of state and local tax revenue;
- v and the stability and growth characteristics of state and local tax systems.

Thank you for your attention to this important issue. If you or your staff have questions about this request, please contact Dean Zerbe or Pat Heck of the committee staff at 224-4515.

Cordially yours,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member

